

Opinions of the People' s Bank of China and the China Banking Regulatory Commission on Promoting the Innovation in Financial Products and Service Modes in Rural Areas

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Shanghai Headquarters of the People' s Bank of China, all branches and business management departments of the People' s Bank of China, and all central sub-branches of the People' s Bank of China in provincial capital cities and sub-provincial cities; the CBRC offices of all provinces, autonomous regions and municipalities directly under the Central Government; all policy banks, state-owned commercial banks and joint-stock commercial banks; and Postal Savings Bank of China:

Promoting the innovation in financial products and service modes in rural areas is an integral part of deepening the financial reform, strengthening and improving the financial services and optimizing the credit structure in rural areas under the new circumstances and is of great significance in supporting and promoting the construction of a new socialist countryside. In recent years, to adapt to the changes in the economic and social development in rural areas and the diversified demands of farmers for financial services, the branch offices of the People' s Bank of China (PBC), the dispatched offices of the China Banking Regulatory Commission (CBRC) and other related financial institutions have been making vigorous efforts in innovating in the financial products and service modes in rural areas and have made obvious achievements. However, some rural areas still have some salient problems such as the lack of diversified financial products, monotony of service modes and failure of the quality and efficiency of financial services to meet the economic and social development in rural areas and the diversified demands of farmers for financial services. While continuing to optimize the layout of grassroots financial outlets in rural areas, relaxing the market access for rural financial institutions, improving the rural financial service network and strengthening the construction of rural financial infrastructures, in order to further promote the innovation in financial products and service modes in rural areas, popularize the innovation from the pilot areas to more rural areas, and boost the establishment and improvement of a multilayered, extensive and sustainable rural financial service system, the PBC and the CBRC have decided to carry out the pilot innovation in the rural financial products and service modes in some counties and cities selected across the country which are the main grain production areas or have laid a sound foundation for county-wide economic development. On the pilot work, we hereby give the following opinions:

I. Guidelines

The guidelines for the pilot work are: carrying through the spirit of the 17th National Congress of the Communist Party of China (CPC) and the third plenary session of the 17th Central

Committee of the CPC, following the Deng Xiaoping Theory and the important ideas of “Three Represents”, and learning and putting into practice the scientific view of development; by boosting the innovation in the rural financial products and service modes as a foothold, encouraging financial institutions to pump more sustained and efficient funds into the cause of “agriculture, farmers and rural areas”, and further improving the financial services in rural areas; endeavoring to meet the needs of “agriculture, farmers and rural areas” for multilayered and diversified financial services; boost the coordinated development of urban and rural financial services; increasing the agricultural production, increasing farmers’ income and promoting the rural economic development; and strongly support and promote the construction of a new socialist countryside.

II. Objectives and Principles of the Pilot Work

The objectives of the pilot work are: by the unremitting efforts in the pilot areas, creating and developing some financial products and service modes in line with the characteristics of actual demands of rural areas, innovating in and improving the new agriculture-related financial service mechanisms, meeting the changing demands of rural areas for diversified financial services, bringing more beneficial and convenient financial services to rural areas and farmers, making the pilot mode replicable and easy for popularization, and fully raise the rural financial service level in a larger scope and to a higher level.

The following principles shall be adhered to in the pilot work: (1) the principle of combining the market with policy support, which means that we need to use the market for orientation and take the policy support as a prop so as to improve the positive incentive mechanism and give full play to the interior enthusiasm and creativity of various market players; (2) the principle of adjusting measures to local conditions, which means that we need to actively explore and innovate in financial products and service modes that meet the local conditions and are more operable according to the actual characteristics of the changes in the economic and social development of rural areas and focus on the actual effects of such innovations; and (3) the principle of optimizing financial services and controlling risks, which means that we need to, by applying modern business network information technology and modernized management means, improve the financial services for “agriculture, farmers and rural areas”, make financial innovations in a prudent and steady way and reasonably disperse financial risks.

III. Contents of the Pilot Work

1. Making vigorous efforts to promote small-sum unsecured loans and joint guarantee loans for farmer households. We shall encourage financial institutions to strengthen cooperation with credit unions, credit cooperatives and other credit communities and actively explore and develop

the business of joint unsecured loans that can meet the financial demands of credit community members by such means for credit enhancement as joint guarantee, security funds and risk guarantee funds. We shall, by regulating the internal procedures of credit communities for credit information disclosure, credit evaluation and loan recovery and improving the internal incentive and restrictive mechanisms, bring into play the enthusiasm of community members for self-management and urge financial institutions to effectively reduce the costs of information collection, pre-loan investigation, credit evaluation and post-loan management so as to issue more unsecured loans on the basis of effective control and prevention of credit risks. We need to encourage rural cooperative financial institutions, Postal Savings Bank of China and new types of rural financial institutions to form and improve the farmer household credit evaluation systems in many ways, actively issue more small-sum unsecured loans and joint guarantee loans which do not require any collateral, expand the farmer household loan coverage and raise the loan demand satisfaction ratio. We shall support policy banks, state-owned commercial banks, joint-stock commercial banks, urban commercial banks and other banking institutions to be indirectly involved in the small-sum unsecured loan business in the manner of wholesale or onlending. We shall encourage agriculture-related financial institutions to apply incentive measures such as preferential loan interest rate and increased credit line to those reputable borrowers who are punctual in repaying loans so as to improve the credit awareness of farmers and agriculture-related enterprises.

2. Innovating in the loan guarantee modes and expanding the scope of eligible collaterals. We shall encourage financial institutions to, according to the agricultural development and rural economic characteristics in the pilot areas and the relevant laws, further expand the scope of property that can be used by farmer households and rural enterprises as collaterals when they apply for loans, actively standardize and improve the operating procedures for the agriculture-related loan business and set up and improve the mechanisms for evaluating, managing and disposing of the property used for securing agriculture-related loans. According to the principles of adaption to the local characteristics, flexibility and diversity, we shall explore and develop loans secured by large size agricultural production equipment, forestry rights and rights to use water areas or mudflats, and standardize the development of loans secured by pledge of rights to accounts receivable, stock rights, bond warrants and deposit receipts. In principle, all kinds of movables and immovables that may be used for securing loans can be used for securing loans in the pilot work, provided that the existing laws are not violated, their ownerships are clear and the risks can be effectively controlled. We need to actively boost and improve the building of a diversified rural credit guarantee system, and encourage various credit guarantee institutions to provide better and more financing guarantee services in rural areas in various manners such as re-guarantee, joint guarantee and combination of guarantee and insurance.

3. Exploring and developing the financial instruments based on purchase orders and guarantee slips, improving the efficiency of allocation of rural credit resources and dispersing agricultural credit risks. We shall encourage the financial institutions to set up an agricultural order-based loan management system according to the seasonality of agricultural capital demands and surrounding the formation of the reasonable pricing mechanism, bona fide performance mechanism and effective enforcement mechanism for the order-based agriculture. We

shall actively boost and develop such credit modes conducive to the agricultural industrialized operations as “corporation + farmer households”, “corporation + intermediate agency + farmers” and “corporation + specialized market + farmers”, so as to give full play to the radiative and exemplary role of agricultural industrialized operations and accelerate the development of quality, efficient and specialized agriculture. We shall encourage the cooperation of agriculture-related banking institutions, rural credit guarantee institutions and other relevant intermediary institutions with insurance companies, and explore and develop new financial service products based on purchase orders and guarantee slips in the mode of “credit + insurance”. We shall encourage qualified large rural planting and breeding households and qualified agricultural producers to effectively prevent and disperse agriculture-related credit risks by investing in “credit + insurance” products and finance management trust products.

4. Exploring the issuance of consolidated bonds by agriculture-related small- and medium-sized enterprises (SMEs) in the inter-bank market and diversifying the sources of funding of agriculture-related small-sized enterprises. We shall encourage agriculture-related SMEs which have promising products, good business operation and good credit status to issue consolidated bonds in the inter-bank market in the mode of “separate liability, unified guarantee and consolidated issuance”. We shall encourage agriculture-related financial institutions with strength, stable operations and a good credit status to use their information and technical advantages and their marketing channels in the inter-bank market to provide credit enhancement and underwriting services for leading enterprises in agricultural industrialization to issue short-term financial bonds and for agriculture-related SMEs to issue consolidated bonds. We shall also encourage various guarantee institutions to provide joint guarantee services, raise the credit ratings of consolidated bonds and promote the smooth issuance of consolidated bonds of agriculture-related SMEs.

5. Innovating in the financial service modes in rural areas and improving the quality and efficiency of agriculture-related financial services. We shall encourage agriculture-related financial institutions to further strengthen the marketing of financial products for rural areas and make more poverty-stricken rural areas covered by financial services. We shall reasonably give more credit management powers to the qualified county-level branches, optimize the loan examination process and simplify the approval formalities. We shall popularize the “one-stop” service in the form of financial supermarket and the practice of putting the loan business of a whole village under the charge of agricultural loan officers. We shall, according to the pilot areas’ plans for building a new countryside, actively promote more electronic, information-based and standard financial service methods in rural areas through mobile phone banking, networked mutual guarantee, bank cards for migrant workers and construction of credit villages and towns, gradually popularize the transactions of rural financial products via network, and develop low-cost sustainable commercial modes based on modern information technology. We shall encourage agriculture-related financial institutions with outlet advantages to expand such intermediary businesses as concentration of funds in the fee charge and service categories and actively operate rural financial consultancy, insurance agency and agriculture-related financial management businesses.

IV. Supportive Policies for the Pilot Work

1. Comprehensively applying various monetary policy instruments to set up a positive incentive mechanism for promoting the innovation in the rural financial products and service modes. We shall allow more room in the adjustment of the credit limit of reloans for agricultural development, expand the applicable scope of reloans for agricultural development and reasonably give preference to the pilot areas with good performance. In the handling of reloans for agricultural development, priority may be given to qualified rural credit cooperatives. Those that issue a larger proportion of loans for agricultural development may be allowed to draw special deposits with more flexibility so as to diversify their sources of credit funds for agricultural development according to their reasonable demands for increasing credit funds for agricultural development.

2. Issuing asset securitization products and credit derivatives in the inter-bank market to diversify the sources of funds of agriculture-related financial institutions and disperse agriculture-related credit risks. We shall encourage agriculture-related financial institutions, according to their own needs and the market conditions, to actively explore and develop securitized products based on such assets as medium- and long-term loans for agricultural infrastructures and comprehensive agricultural development so as to prevent and control the risks of agriculture-related credit assets. We shall encourage the pilot development of credit derivatives based on agriculture-related loans and secured by insurance companies or loan guarantee institutions so as to provide low-cost risk evasion instruments with good fluidity for financial institutions to offer more preferences for agricultural development.

3. Accelerating the payment system construction in rural areas to make the payment and settlement business more convenient in rural areas. We shall support the construction of agriculture-related financial institutions and improve the payment and settlement system and the business operating system. We shall encourage and direct agriculture-related financial institutions to develop and promote the key payment and settlement service products that meet the actual conditions in rural areas. We shall accelerate the construction of the payment service infrastructures in rural areas and expand the radiation coverage of the payment and settlement network in rural areas.

4. Strengthening the building of the rural credit system to improve the regional financial ecology. The branch offices of the PBC in the pilot areas shall collect more information for and expand the scope of application of the enterprise and individual credit information databases in rural areas, guide the financial institutions in setting up and improving the electronic credit files for farmer households, professional cooperatives of farmers and agriculture-related enterprises, design an objective and efficient credit information index system, create and

improve a scientific and reasonable credit scoring and accumulation system, and boost the establishment of a rural credit information sharing mechanism.

5. Improving and implementing the supportive market access policies for the innovations in rural financial products and services modes according to the principles of “low threshold for market access and strict supervision” and “differential treatment”. For the agriculture-related financial institutions which have made obvious achievements in supporting agricultural development, have a strong capability in risk control and are distinct in boosting innovation in rural financial products and service modes, we shall provide a “green lane” for market access in respect of financial product innovation and adjustment of grassroots outlets layout, implement the record-filing system for their new business with controllable risks, and support them in trans-regional mergers, acquisitions and reorganizations and funding the establishment of new types of rural financial institutions or branch offices.

6. Giving play to the leverage role of treasury funds to make the rural areas more attractive to financial resources. In the qualified pilot areas, we shall encourage the local governments to set up an agriculture-related loan risk compensation system to cover the credit losses suffered by agriculture-related financial institutions from natural risks and market risks and provide discount interest for agricultural enterprises and farmer households, or set up an insurance subsidy system to provide insurance premium, operating cost and insurance overcompensation subsidies for those insurance companies with agriculture-related insurance business and the covered enterprises and farmer households.

V. Organization, Implementation and Steps of the Pilot Work

The provincial branch offices of the PBC in the pilot areas in conjunction with the local CBRC offices shall generally coordinate and organize the pilot work of their respective provinces, and formulate the specific opinions on the implementation of the pilot work or the pilot administrative measures which shall be submitted to the PBC and the CBRC for archival purposes. The county-level branch offices of the PBC and the local dispatched offices of the CBRC shall strengthen the cooperation and communication with the local public finance, insurance and agricultural departments, jointly work out and implement the specific measures for the pilot work, strengthen the administration of the pilot work, timely report on the progress of the pilot work to the higher authorities, and strengthen the follow-up, monitoring and effect evaluation of the pilot work.

From the second half of 2008, the six provinces in Middle China and the three provinces in Northeast China shall each select two or three qualified counties (cities) to carry out the designing of plans and the practical pilot operations, and each province shall focus on the

innovation in and promotion of two or three financial products. From 2009 to 2010, the provincial branch offices of the PBC and the provincial CBRC offices in the pilot areas shall timely supervise, guide and evaluate the progress of the pilot work and fully summarize the experience of the pilot areas in the innovation in financial products and service modes, and the Head Office of the PBC and the CBRC shall, in good time, select some featured mature innovative products for promotion and popularization in other qualified area nationwide.

The provincial branch offices of the PBC and the provincial CBRC offices in the six provinces in Middle China and the three provinces in Northeast China shall jointly forward these Opinions to the relevant financial institutions within their respective jurisdictions and do a good job in coordinating the implementation of these Opinions. If any problem is encountered during the pilot process, please timely report it to the PBC and the CBRC.

People' s Bank of China

China Banking Regulatory Commission

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